"MAS Financial Services Limited Q4 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the MAS Financial Services Limited Q4 FY2019 Earnings Conference Call hosted by IIFL Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference please signal an operator by pressing "*" then"0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Murarka from IIFL Securities. Thank you and over to you Sir!

Abhishek Murarka: Good afternoon everyone and welcome to the Q4 earnings call for MAS Financial. From the company, we have Mr. Kamlesh Gandhi, Founder, Chairman & MD and Mr. Mukesh Gandhi, Co Founder Wholetime Director & CFO and the rest of the senior management team of MAS Financial. We will start with an opening remark by the management team and then we will open, the floor for Q&A. Over to you!

Kamlesh Gandhi: Thank you Abhishek and good afternoon to everyone. I am very happy to connect to all of you once again. The purpose of connecting to all of you is to share our operational results for the year 2018-2019. I shared with all of you and as on already on our website.

The performance for the year is in terms of the AUM growth, we have grown by 28.64% and in terms of profitability if I take you first through the I-GAAP numbers, the profitability for the whole year has increased by 40% and for the quarter which has increased by 30.92% if we compared on quarter-to-quarter basis so as all of you are aware, this is the first year of the transition from I-GAAP to Ind-AS so we have endeavored to give you both the numbers, the first we will discuss and I take you through I-GAAP number followed by Ind-AS number for better clarity and for better understanding so if I spell out the numbers for you, the disbursement for the year grew by 22.64%.

I am taking about the complete year financial year 2019 and 2018 comparison. The assets under management grew by 28.64% and with a rise of total income of 28.67%, the profit after tax grew by 38.55% and if you see for the quarter, the disbursement on Q-o-Q grew by close to 9% and asset under management grew by 28.64% and profit after tax grew at around close to 30% on Q-on-Q basis.

If you see the bifurcation of assets you will that majority is from micro enterprises and small and medium enterprise loans, micro enterprise loan comprises of Rs.3340 Crores, which is 29.68% Y-on-Y growth, SME loans are Rs.1335 Crores, which is 29.75% rice and two-wheeler loans are Rs.461 Crores, which is 27.44% price and commercial vehicle Rs.154 Crores, which is 5.5% Y-o-Y has increased.

Now, if I translate this numbers to Ind-AS, the differences in the assets under management it is marginal difference so more or less remains the same at around Rs. 5338 Crore and profit after tax is at around 152 Crores and profit before tax is Rs.233 Crores, which is 41.64% rise and PAT is increased by 47.07%. This is as far Ind-AS on year-to-year basis and if we see same on quarter-to-quarter basis, the PBT has increased by 28.66% and the rise in asset under management is 28.42% and profit after tax is also increased by 29.10% .

I will share the asset quality in terms of what looks like from I-GAAP point of view and Ind-AS point of view both just for the better understanding after the adoption of Ind-AS we have supposed to publish on the Ind-AS number, but just for the better understanding we have been the first year of transition.Commercially what we knew is GNPA on AUM as on financial year 2019 is 1.24% as compared to 1.15% last year and after provisioning NNPA is 0.86% as compared to 0.91% last year and if you translate that into understanding on stage 3 that is 1.39% as compared to 1.30% last year and NNPA at 1.14% as compared to 1.19%. So this is in the performance once again as all of us are aware that this was a very tough year, but we believe in focusing on the fundamentals and that we have done this year also nothing new for us and soon after the September crisis I had communicated to all of you that we are well on track on achieving the targeted numbers, which we have targeted at the beginning of the year that will be close to Rs.5200 Crores, Rs.5300 Crores in AUM and close to Rs.200 Crores in PBT, which you can see for yourself we have surpassed that. So as a strategy you always endeavor to grow at around 22% to 25% anything more than that is dependent upon the market situation and the opportunity what we get from time-to-time to increase our asset, but the priority is quality, profitability and then AUM.

We have given an understanding on how the impact will be on booking the assignment income upfront. Let me give you some background on this that post Ind-As we are supposed to book the assignment income upfront, which originally we used to book on a regular basis the way the portfolio amortizes, but with the new guidelines we have to book assignment income upfront so we need to understand that the implication of the same on the income hence was the benefit of all of you to understand the real impact, we have given in our press note and also in our presentation that was in the MAT impact of assignment and we have not done assignment would have booked it on a regular basis when we do the assignment we booked it upfront so the net result is that in financial year 2018, we had positive impact of Rs.18.90 Crores because of income being booked upfront as compared to Rs.13.84 Crores this year so this will be dynamic depending upon the assignment we do from time to time.

Currently there has been no guidelines from RBI as to what has to be done on assignment income and we are await that one but right now we are following the Ind-AS standards and by that by virtue of following that standards, we are booking it upfront.

Now I will take you very briefly through working of our housing finance company, once again in our housing finance company, we had very guarded growth this year, you know the market situation but right from the beginning as I told and I like to repeat once again that the order of focus is quality, profitability and then AUM. Thereon year-to-year basis, our disbursement grew by 63% as far I-GAAP numbers, asset under management grew by 32.97% to Rs.271 Crores from Rs.203 Crores and profit for the whole year increased by 46% that is profit after tax of Rs.2.50 Crores to Rs.3.66 Crores and if you translate this into the Ind-As numbers, AUM remains more or less the same but there are some changes in the accounting treatment and hence the profit after tax looks at Rs.3.41 Crores as compared to Rs.2.01 Crores for the whole year that is a rise of 69.47% and if you translate that into quarterly result the profit before tax has grown by 120% and profit after tax we have given explicit understanding that because of the deferred tax if you do not consider that effort tax impact, which was due to conversion of the OCP equity than it was Rs.0.33 lakhs last year which has increased to Rs.0.83 lakhs this year and if you consider the impact of OCP has that Q4 on profit is around Rs.1 lakh and in terms of the asset quality once again then you have focused upon the I-GAAP numbers and Ind-AS number they correlate and stage 3 was usually the GNPAs we understand is around 0.36% of the total AUM and after provisioning it is 0.26% as compared to 0.25% last year.

This has been the overall performance, a growth of 30% and a growth of around 45% in profitability. We as a management are quite happy nevertheless never satisfied and complacent that despite of the very tough scenario we could achieve this target, we could maintain the quality of assets and very important thing which Mukesh will take you in detail that we could raise the liability without incurring or without having substantially higher cost and in fact for the last year if you see the numbers the cost is hardly increased and that is because of our policy of tying up for at least two to three quarters in advance so when the teams when things went wrong in September, we have already had levels tied up for the two quarters and that has to delicate this through the situation and right from the beginning, we never had any fundamental disconnect as far as the liabilities concerns more importantly on the asset liability business and same is in the case of assets that we follow the dictating of extending credit policy. So this has been the key highlight of the performance if I talk to you about the working we continued to focus on the MSME sector, we worked through to about 3500 centers to our 79 branches and through our partnership with more than 100 NBFC. Now both this model have been working very nicely for us, we improved from time to time, we understand that how we can improve on operation because we personally believe that landing is all about operational excellence and the value add what you do to all the stakeholders.

Now I will request Mr. Mukesh Bhai to take you briefly through how we raised liability in this quarter especially in Q4 and what is the configuration of liability and how we plan to take it forward. I would like Mr. Mukesh to talk something on liability.

Mukesh Gandhi: Good evening everybody. So far as the liabilities concern that as you all know that this year was really a tough year and particularly after second quarter at least in Q3 and Q4 liquidity has dried up for NBFC sector as a whole and as the reason the costs went up, but we could manage to maintain the cost within the range. If you look at our average borrowing cost for the entire year it remained same 8.63% vis-à-vis earlier cost of 8.67%, if you consider the cost of fund then it was around 7.7%, it remains 7.7%.

Now if you look at composition of our borrowing 39% of portfolio we keep on assigning so every year we go for assignment of the transaction and that is the very good win-win situation for banker as well as for the company because once we assign the portfolio we do not have to provide any capital on that and further banker it qualifies as a retail and priority sector portfolio so for assignment we could get the facilities at MCLR or MCLR plus 20 to 30 basis points higher than that and this we have been doing since last 15 years very successfully so assignment transaction is not the new one for the current year because of the liquidity crunch, but we have been doing these assignment transaction since the last 10 years and now we have accidental relations with all the bankers.

We have Cash credit facility of around Rs.2000 Crores and out of that almost 60% to 65% of facilities we keep on utilize and the remaining 30%-35% is always question for us. At the end of the year, we had a term loan of Rs.750 Crores and we had subdebt of Rs.60 Crores so this is how composition of liabilities expansion and if you look at the capital adequacy ratio of the company then we had capital adequacy ratio of 27.85% and out of that one capital ratio was 26.4%, we have healthy capital adequacy ratios going forward.

Our return on equity works out to be 19%, our return on AUM works out to be 3.04% and so far as the asset liability management is concerned, we are having absolute making funding because almost 40% of the portfolio, we had door to door maturity so our liability for assignment is door-to-door maturity, fixed maturity is for one year, but we see continuously getting renewed also and it will look at our current ratio that is more than one so that that we never had any mismatch in our assets and liability component and during this last six months, we could raise the sources of around Rs.1500 Crores to Rs.1600 Crores comprising of assignment, term loan and announcement in easy facility so we have always aside in raising our liability and that is why we are in position to control the cost so far as the borrowing cost is concerned so this is what I would like to highlights on liability side. Thank you.

Kamlesh Gandhi: Thank you Mukesh so that was on the liability side and you know the brief on the overall working of the company and I think now we open to take any questions or any understanding that you make to have from us.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question is from the line of Subranshu Mishra from BOB Capital Markets. Please go ahead.

Subranshu Mishra: Congratulations on a good set of numbers. Just a quick question your two-wheeler sourcing agents have come down sequentially any specific reason last quarter it was around 427 this quarter, 312 so that is my first question?

Kamlesh Gandhi: That is a dynamic process and in terms of two-wheeler sourcing agents what they called it is that we used to work with subdealers so we will take and we called it as CDGS scheme as the dealers will originate and will take the guarantee of the portfolio that we create from their counters so in the rural areas where we used to work that support from the subdealer and as and when we expand our network we do away with such guarantees so this is the result of that from they have converted into normal working so when we talked about CDGS scheme, two-wheeler sourcing agents that is our strategies dealers what we called about.

Subranshu Mishra: But this is a very drastic change on sequential basis as this is only the reason for that?

Kamlesh Gandhi: Yes it also depends upon the policy that when we decide that not to work on their guarantee because we have appointed our own feet on street, so we would be doing away with we will be relieving them from such type of arrangements and if I do it one region itself, there will be around 10% to 15% subdealers, this is all the subdealers, under each dealer there are around 25%, 30%, 40% subdealers so if I start one regions that will be doing our is around 25% to 30% subdealers so this is the main reason behind this coming down.

Subranshu Mishra: Right and the second question is then your free term street has also come down sequentially from 665 to 609 so if this decrease because you increased the feet on street, I do not see the increase on the feet on street sequentially?

Kamlesh Gandhi: That is product to product as you are talking about two-wheeler that might have increased in two-wheelers might have reduced this motor product and sequentially what happens that as far as feet on street is concerned, it is always the work-in-progress so such feet on street, this type of variation is supposed to be there from time to time.

Subranshu Mishra: Sir is your employee count the same as that of last quarter or is there any change in the employee count?

Kamlesh Gandhi: Currently is Rs.1450 and last quarter was around Rs.1500.

Subranshu Mishra: This 50 is like you have laid off 50 people how do I look at this number?

Kamlesh Gandhi: It is not like that; it depends upon the various business model in some of the business model we think that we have extra manpower or where people have to the people leave of their own or where people attrition might remove them so this much variation on feet on street will be seen across quarters if you compare on quarter-to-quarter basis.

Subranshu Mishra: Right Sir, my last question is how do we look at the source of funding going forward because largely it is coming from banks and securitization, how do we look at any other source of funding going forward CPs, NCDs or any other source of funding apart from banks and securitizations Sir or assignment?

Kamlesh Gandhi: We already increased ourselves with various lenders and just to share with you many of getting very positive response of from any of them, but only question is the comparative positive. At our side, we have always believe that too much of diversification of fund at the cost of borrowing at our rates, if I tell you NCD is available but vis-à-vis what the rate at what we can raise them in the banks, which we are working with. It does not mix under the interest cost and we are in the business of very thin margin so as long as there is favorable interest of given we can explore the new sources of fund that we can do it anytime, but currently the traction what we see from our current lenders is more than sufficient to speed us for this year as it looks like now, but it is not a scenario, we will be free to explore new resources provided it matches our interest rate expectations.

Subranshu Mishra: Sure Sir. Thank you so much and I will come back in the queue.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Good evening Sir. Thanks a lot for taking my question. Sir one return on average balance sheet asset had fallen from 4.7 to 4.3, any specific reason for that Sir?

Kamlesh Gandhi: We are talking on quarter-to-quarter basis?

Sarvesh Gupta: Yes, for sequential quarter?

Kamlesh Gandhi: It was 4.69. It is 4.32 that is what you are asking.

Sarvesh Gupta: Yes, any specific reason for that?

Mukesh Gandhi: As you know the cost of borrowing has increased, we have to always see if you see from the last year we went for IPO and for IPO money got into capital therefore the debt equity was low. If you see the interest rates has risen because of the debt equity from last year, which was too around, recently it was 3.13, it is to go down because if you see my operating expenses this as going down from last year.

Kamlesh Gandhi: And the same is reflected in the below mentioned, which will be verified from the return on average networth, if you see the average done return networth in financial year 2018 was 17.02 as compared to 19.10 for this quarter that is because of change in tax from time to time.

Sarvesh Gupta: Second question Sir, on our cash and cash equivalence have almost gone up 10X in your consolidated balance sheet so is it because we have gone very conservative in terms of resolving from liquidity?

Kamlesh Gandhi: Usually what happens that as Mukesh Bhai told that we used to utilize only 65% of the CC normally, but given the situation what we were into this time, we had decided to avail CC limits in full and raise the money little bit in advance because as you know that anything happens in the market has domino effect and we did not want to face that so we though that is the extent we can keep cash and cash equivalent for our future disbursement that is better so this time we increased that is the main reason for increase in that.

Sarvesh Gupta: Secondly Sir from an IRR perspective is it better to do assignment over keeping the assets on our balance sheet?

Kamlesh Gandhi: You are talking about our lending rates or at our borrowing rates?

Sarvesh Gupta: Sir you are doing lot of assignments I was just trying to understand from IRR perspective it makes more sense to do assignments versus keeping the loans on our balance sheet?

Kamlesh Gandhi: As far as assignment is concerned there are two aspects to it, the rate at which we lend does not change, whether we keep it on our books or whether we assign it to somebody so that is a normal business model because when you originate we do not know whether we are going to assign it or not, so the rate of lending does not change, but as far as the rate of borrowing and availability of fund is concerned, assignments saw a lot of traction and Mukesh Bhai told we have going to do this in the last 10 years so we are always in married in doing more of assignments to the extent of 30%, 40% in getting a good borrowing rates so in nutshell assignment has reducing our cost of funds and we will be in that parlance our spread marginally increases as compared to any other borrowing.

Sarvesh Gupta: Understood Sir. Sir of this fund let us say you are having Rs.100 so Rs.40 assigned to the bank so there is no gross NPA booked on that Rs.40 is that right?

Kamlesh Gandhi: Right.

Sarvesh Gupta: So whatever is our gross NPA which is let us say our total bad loans are on 2% so that is 2% or over the 100, but on our 60 which is left, it is a bit higher, it is 2 on 60 is that right understanding Sir?

Kamlesh Gandhi: There is a right understanding.

Sarvesh Gupta: Okay and I wanted to know what is your ROA guidance going forward?

Kamlesh Gandhi: Right from the beginning our understanding is that if you would endeavor to have anywhere between 2.5% and 3% if I get more than 3% because of our operational opportunity what we get from time to time in the market and ideally we consider 2.5% to 3% to be good ROA.

Sarvesh Gupta: Understood Sir and any particular reason why the housing subsidiary is partially owned by the company and not wholly owned by the company?

Kamlesh Gandhi: The reason is that when we started housing, they are not many people who would believe in this and we have invested so as the promoter we showed them the maximum interest and courage to put in our own money in that company and hence that structures came up like that and then from time-to-time because of the internal accruals and from the time-to-time that is in the form of contribution and promoters and the company in the same proportion, we have been in position to maintain this.

Sarvesh Gupta: Is there part towards making it wholly on subsidiary now that you are getting more and more confidence about the performance of that subsidiary as well?

Kamlesh Gandhi: This can be done at the right time. The idea is that this company will never suffer for the amount of capital and individuals are limitations bringing in capital term time-to-time so over the period of time as this company grow and depending upon the capital requirement, the capital structure ownership structure will also vary according to that.

Sarvesh Gupta: Understood Sir. Thanks a lot Sir. I will join back in the queue.

Moderator: Thank you. The next question is from the line of Rohan Mandora from Equirius Securities. Please go ahead.

Rohan Mandora: Good evening Sir. Thanks for the opportunity. Sir if you could share your comments on the NBFC portfolio that we are lending to like are we able to exit funds in the last six months, what kind of growth they have shown in the last six months in AUM some commentary on your business performance? Typically, the ones which are rated BBB and BBB and below?

Kamlesh Gandhi: To start with first of all, on behalf of all the NBFCs who we work with I must say with you that all of them have worked in such a manner where they could manage the liquidity and the reasonable growth, the growth has varied from company to company, but we have managed to grow in a year 2018-2019 anywhere in the range between 15%, 25% and 30% depending upon the company. Most of them have remained profitable may be that growth in profit might not be as one their expectation, but they have grown in profit, they have grown in AUM and as I told you that ranges anywhere between 15% and 25% to 30%. What I would like to cognizance of and I would like to complement them that the way their manage liquidity despite of the fact that there were not benefit would understand this sector and this is where we stand out in associating with all these NBFCs, then we ourselves as NBFC knew that our infrastructure companies going down has nothing to do with their retail financial sector and it is irony and the biggest paradox is generalization and irrationality when something wrong happens in the so all these 120 partners we are very happy to as we associated with them, they are very resilient, they have grown to may be little slowly but they have grown and we say that going forward the way they add the value in the last line of credit once the things stabilizes they will find triggering once again it was few months back.

Rohan Mandora: Okay in the interim period in the last month, have they have been able to access funds from banking sector any comments?

Kamlesh Gandhi: They position to access in depending upon their side and capital structure, their relationship with the bank, but it is not so that they will not raised any money, they have raised money from the banking sector. We are not only funders to that.

Rohan Mandora: Right and Sir in terms of yields that we charged to them have we changed the AUM?

Kamlesh Gandhi: That is the dynamic process. If I tell you that if we have to borrow at a higher rate, all NBFCs they would not consume money for themselves, they do it for on lending. So there is a case for us, if we borrow it at higher rates and if we anticipate higher rate with the yields will change, in the last six months in anticipation of higher borrowings cost for us, we have changed the yields for them, they understood it and from time to time we once again readjusted also so this is the very dynamic process on quarter-to-quarter, month-to-month basis depending upon the markets situation if interest rates are very volatile, they have to change frequently if they are steady we also give them at a constant rates.

Rohan Mandora: Right Sir and just wanted to understand one more thing with respect to interest income that we put on the exchange filing, sequentially that may come down to say from Rs.127.2 Crores to Rs.124 Crores and you have seen you are AUM growing in this period so just wanted to understanding why is there dip and not an increase?

Kamlesh Gandhi: We will all have to understand this and regularly this Ind-AS coming in. So what happens that when you have Ind-AS standards all the assignment income is booked upfront and the regular income what you receive in terms of interest, which you would have received has to be reversed so this is the query answered to one of the investors currently is that the reversal of income, because of that income booked earlier in Q4 is more by Rs.3 Crores as compared to Q3 so and this can be shared with you online the company working can be shared with you online. We have endeavor to decode the assignment impact in our presentation also and in our press release also. Say for example I do lesser assignment as compared to one quarter in Q3, I do more assignment in Q4, I do a lesser assignment then my total income will reduce because I am supposed to move income upfront, but overall there is nothing wrong in the business model nothing has changed, this income will come over the quarter, the effect will be adjusted amongst over the next two to three quarters so with Ind-AS coming we all have to understand this in the right parallel in order to evaluate the working of the company correctly so far we have given very detailed description on what is the real impact, if you see the assignment income impact for the year 2018-2019 is lesser by Rs.5 Crores as compared to 2017-2018. There is nothing wrong in the business that the only thing is this the Ind-AS impact and secondly you are talking about the increase portfolio usually in Q4 the portfolio increase in the latter part of the year so what is seen as an increase in terms of AUM does not necessarily reflect into the increase in income so that is in fact you will get in Q1 so there is a combination of all the sectors, which is led to sequentially margin round.

Rohan Mandora: Okay and Sir finally to get questions could you share the disbursement number for FY2018-2019 and what is the undrawn limit some that we have currently from the banking to say?

Kamlesh Gandhi: I will request my colleague to share this figures with you.

Darshana S Pandya: Disbursement for the year was Rs.4772 Crores as compared to Rs.3891 Crores last year.

Rohan Mandora: Rs.91 Crores and can you get the segment wise disbursement?

Darshana S Pandya: Segment wise around Rs.492 Crores is from two-wheelers and MSME loan is Rs.3200 Crores, SME Rs.961 Crores and SIT Rs.116 Crores.

Rohan Mandora: Sure. Thanks a lot.

Moderator: Thank you. The next question is from the line of Sourabh Dhole from Trivantage Capital. Please go ahead.

Sourabh Dhole: Thanks for the opportunity. I just wanted to ask about your incremental cost of funds at what cost are you raising your funds, if you want to do more incrementally, if you were to borrow today?

Mukesh Gandhi: Incremental cost of borrowing now has gone up by 50 to 75 basis points so currently we have been borrowing between 9.5% and 10%.

Sourabh Dhole: Okay and as I understand from your presentation, the cost of borrowings in the stock of borrowing this 8.56%?

Mukesh Gandhi: Yes, that was for the full year.

Sourabh Dhole: Okay and if we were go to say six months back or may be just post the crisis, what was your personal borrowing at that point in time incremental cost of borrowing?

Mukesh Gandhi: That impact with come afterwards because at that particular point of time mainly we repossess through assignment and the assignment, there were not much rise so far as cost of borrowing was concerned.

Kamlesh Gandhi: The average cost of borrowing for this quarter as it looks like from 8.56, the average cost and combination all sources combine so we close to 9% or 9.25%.

Sourabh Dhole: Okay across sources, but what was this 9.5% to 10% that you are talking off?

Kamlesh Gandhi: There are various sources, Mukesh was probably telling that spent assignment, but if you all the sources combined that the assignment term loan, CC, the WCDL, what we use if we combined all those resources, it will be around 9.25%, this is what we anticipated.

Sourabh Dhole: Okay incrementally 9.25% is your borrowing rate facility across sources?

Kamlesh Gandhi: Right.

Sourabh Dhole: What was the sequentially?

Kamlesh Gandhi: The whole year was around 8.56%, if you say last two quarters it was 8.45% and 8.56%. You can safely consider at an average at 8.5%, last six months it was 8.5% it will be now close to 9.25% as it looks right now.

Sourabh Dhole: Basically there are 70-80 BPS rise in cost of borrowing in the last quarter of five months right?

Kamlesh Gandhi: It will be now because if you say what we have given the numbers also up till March it was 8.56% that is because you had undrawn limit, we had limit that on older rate assignment was substantial, but now if you talked about Q1 may be in May or June the rates stabilize I do not know but as it looks like now this borrowing cost might look at around 9.25%.

Sourabh Dhole: Sir secondly among the balance sheet as we understand that you have very strongly capitalized, any plans of reducing the level of CRAR that you have?

Kamlesh Gandhi: CRAR?

Sourabh Dhole: Basically you are 27%, 28% on CRAR and regulatory requirement is around 15% so the GAAP is huge so do you plan to possibly increase the risk weighted assets so that you are much closer to 15% is that plan?

Kamlesh Gandhi: No, we would like to stick to fundamentals of growing anywhere between 20% and 25% may be if the things are conducive it can be 30% so what CRAR is not only for year or two, we want to over the years and we intent to develop a self propelling model on capital requirement that I do not have to go every year to raise capital so it was see during the history of MAS, we have raised capital only three times, we would like to have self propelling model and once again we do not consider CRAR is a statutory requirement, they are two things statutory requirements of capital and capital structure. When we talk about capital structure we take the complete AUM as a whole so when we talk about AUM we would if I share you with the plan from capital structure, you would like to keep anywhere between 12.5% and 15% tier I on AUM so growth will be driven by this understanding going forward.

Sourabh Dhole: Can you give me the yields across your product segments?

Darshana S Pandya: Segment wise if you look at the yield MSME is around 15.5%, our SME portfolio is 14.5%, two-wheeler is at around 17% then SIT is 17% so overall average is 15.5%.

Sourabh Dhole: Thank you so much.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Thanks for taking the followup. So because this 75-80 basis points of incremental cost of borrowing increase, will you able to pass it on to the borrowers or how is it looking like?

Kamlesh Gandhi: Honestly speaking we have already started doing that because just to share with you, you are anticipating that this impact will come right from Q4 but because of our very efficient liability management that we will have to face that higher cost in Q4 so already we have started passing on to them and we believe that after all this rise in costs and everything we will be in position to maintain our ROAs anywhere between 2.5% and 3% so ultimately our aim is maintaining the ROAs so we already started and we are confident of passing it on.

Sarvesh Gupta: Understood Sir and Sir one question related to the previous question, which I asked again let suppose you have Rs.100 of AUM out of that around Rs.35 has been raised through NBFC right, it has come through NBFC channel and Rs.65 has come through your own channel is that right?

Kamlesh Gandhi: If you see our press release we have already mentioned that around 59% of our business comes through our association with NBFC. 60:40 is us on book and off book that is what we have assigned is 40 and non-assigned book is 60.

Sarvesh Gupta: My reports are reversed so Rs.60 is coming from NBFC, Rs.40 is coming through your all direct channels, now out of this you are assigning Rs.40 to the bank?

Kamlesh Gandhi: Of this Rs.100 AUM.

Sarvesh Gupta: Rs.24 if it is in the same proportion through which we are raising so Rs.24 of money of AUM raised to bank through NBFCs is going to bank? Right then you are left with Rs.16 of AUM, which has been raised through NBFCs, which is in your book on which you will have no NPAs is that the right understanding and then you are left with around Rs.40 which you raised out of your own, but Rs.16 you anyways assigned so Rs.24 is remaining on your book so all of your gross NPA are pertaining to this Rs.24 is that be the right understanding?

Kamlesh Gandhi: We can share the detail on product wise on book, off book, retail, retail asset channels with you so that is understanding 60% through NBFC and 40% is MFI.

Sarvesh Gupta: Sir then the question is since we are writing of plus our gross NPAs almost Rs.2 on this Rs.100 so all of that pertains to this Rs.24 which has been raised through our channels and which has not been assigned to the banks?

Darshana S Pandya: If you look at the ratio of assignment out of this 40%, 70% is assigned from the retail assets channel book. Percentage of assigning the retail asset is less, it is just 30%.

Sarvesh Gupta: I will take this offline because I wanted to basically understanding the gross NPAs plus bad loans, which are originating from your direct channel and which we are recognizing. Finally, Sir in your last annual report, we had loans to interested parties like M-Power and Paras which was around Rs.48 Crores in FY2014 for this M-Power and only Rs.11 Crores to Paras so totaling to Rs.59 Crores so what is this category of loans now in FY2019 and what is the level of interest that directors have in these company?

Kamlesh Gandhi: M-Power and Paras as I think there is no interest in Paras as now. So Paras is no more or related third party so M-Power is concerned if I share with you that this was where before the IPO and before we went to the IPO and the directors have invested in the personal capacity as a sum of Rs.50 lakhs given to the promoters because we knew the promoter is an HDFC Bank and we used the promoter since many years so there is not much involved in terms of directors in that is small amount of Rs.50 lakhs which was given to him as a goodwill gesture when he started his own company that was also before IT and Paras there is no related party now.

Sarvesh Gupta: What is the extent of loans to M-Power right now in FY2019?

Kamlesh Gandhi: That I can share with you offline because I do not have it currently but it can be shared with you.

Sarvesh Gupta: Thank you Sir. Congratulations once again and all the best for the coming quarters.

Moderator: Thank you. The next question is from the line of Piran Engineer from Motilal Oswal Securities Limited. Please go ahead.

Piran Engineer: Congrats on the quarter. I just have couple of clarification firstly on our gross stage III when you give the DBT breakup and I add up what is the 90 DPD plus it comes to about 70 BPS, but we disclosed it as 1.4% so what exactly is the difference?

Kamlesh Gandhi: I do not know what you are adding up, can you come again?

Piran Engineer: On slide #28, when you giving the assets under management days passed due wise if I take quarters more than 90 DPD that is barely 70 BPS, but what we call gross stage III is about 140 BPS so what is the discrepancy here?

Kamlesh Gandhi: That 90 DPD is as far as I-GAAP and this was Ind-AS was the asset classification as far as Ind-AS and I-GAAP changes because of various factor that can be shared with you.

Darshana S Pandya: I-GAAP we used to reverse the interest charges on NPAs, more than 90 so that is the reason that classification of DBT is there and in case of Ind-AS it is not like that so we do not have to now reverse the charges on assets more than 90.

Piran Engineer: That is better than as far I-GAAP our gross NPAs is around 1.24?

Darshana S Pandya: Yes, even after reversing the charges the DPD is under 90, but we keep it that portion as substandard so it will be there in the NPA

Kamlesh Gandhi: They do not do reverse migration.

Piran Engineer: Secondly your cost of borrowing when I see the Q3 cost of borrowings from last quarter DBT it was 9.1% and that has become 8.56% this quarter so how exactly the cost of borrowing decline Q-o-Q?

Kamlesh Gandhi: What we did is you must be knowing after September there was a liquidity crunch in the market so what we did is we passed about loan into the current account if you see our December numbers the current account and balance would be higher, this in the last quarter, we have raised some term loan amounting of Rs.300 Crores, so we have raised fresh term loan and that has been passed in the current account that is for March end, and there was no excess CCU in this quarter, which is my highest borrowing cost and therefore my cost of borrowing again has come down as compared to the December quarter.

Piran Engineer: If I get it right here term loans are cheaper than cash credit?

Kamlesh Gandhi: See, CC has two parts, CC & sub limit of working capital demand loan, WCDL will cost you lesser because it is linked to tenor MCLR but if I use a CC facility, which is around it is more than 1% to 2% even compared to WCDL.

Piran Engineer: It is more by 1% to 2%?

Kamlesh Gandhi: Yes 1% so what we did is we passed some of CC facility into my current account in order to manage the liquidity for the quarter and therefore my interest cost was higher on cost of quarter December. In this quarter as such liquidity is down and we were able to borrow new fund therefore no such arrangement was done.

Piran Engineer: Lastly if you could repeat the disbursement breakup number that you all mentioned a while back?

Darshana S Pandya: Rs.492 Crores is two-wheelers, Rs.3200 Crores is MSE loan, SME Rs.961 Crores and Rs.116 SRTO.

Piran Engineer: Thank you so much and all the best.

Moderator: Thank you very much that was the last question. I would like to hand the conference back to the management team for closing comments.

Kamlesh Gandhi: Thank you everybody for joining the conference. As far as 2019-2020 is concerned, we will continue to pursue our vision of excellence through endeavor, we have a team over the last 20 years have worked on this vision and once again we just have guidance we would like to grow our growth anywhere between 20% and 25% and once again the order of priority will increase quality, profitability and AUM and we are very confident of achieving this year also as discussed and as shared with you that last year was very tough year and despite of that we could actually this because our main aim is to focus on the fundamentals and they continue to do that. Thank you so much.

Moderator: Thank you very much. On behalf of IIFL Securities Limited that concludes the conference. Thank you all for joining us. Ladies and gentlemen you may now disconnect your lines.